

**REPORT OF THE AUDIT OF THE  
MADISON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MADISON COUNTY FISCAL COURT**

**June 30, 2009**

The Auditor of Public Accounts has completed the audit of the Madison County Fiscal Court for fiscal year ended June 30, 2009. We have issued unqualified opinions on the governmental activities, each major governmental fund and the aggregate remaining fund information of Madison County, Kentucky. We have also issued a disclaimer of opinion on the business-type activities and the Jail Canteen Fund of Madison County, Kentucky due to the lack of adequate documentation maintained by the Jailer and our assessment of fraud risk. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Madison County's major federal program: Chemical Stockpile Emergency Preparedness Program (CFDA #97.040)

#### **Financial Condition:**

The fiscal court had net assets of \$30,549,714 as of June 30, 2009. The fiscal court had unrestricted net assets of \$6,193,348 in its governmental activities as of June 30, 2009 with total net assets of \$30,523,849. The fiscal court had total debt principal as of June 30, 2009 of \$11,555,737 with \$401,079 due within the next year.

#### **Report Comment:**

2009-1 Internal Controls And Policies And Procedures Which Include Proper Management Oversight Should Be Implemented To Ensure Jail Canteen Revenues and Expenses Are Properly Accounted For And Reported

#### **Deposits:**

The fiscal court and component units' deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Kent Clark, Madison County Judge/Executive  
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. We were engaged to audit the accompanying financial statements of the business-type activities and Jail Canteen Fund of Madison County, Kentucky, as of and for the year ended June 30, 2009. These financial statements are the responsibility of the Madison County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Madison County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Based on our assessment of fraud risk for the jail canteen fund, we determined the risk of fraud to be too high, and due to the lack of documentation, we were unable to apply other audit procedures to overcome this fraud risk. In addition, the Jailer had weaknesses in the design and operation of its internal control procedures and accounting functions for the Jail Canteen Fund.

Because of the high level of fraud risk, internal control weaknesses and the lack of adequate documentation maintained by the Jailer on the Jail Canteen Fund, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the business-type activities and the Jail Canteen Fund.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
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Members of the Madison County Fiscal Court

In addition, in our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of Madison County, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit required supplementary information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Madison County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 13, 2010 on our consideration of Madison County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

2009-1 Internal Controls And Policies And Procedures Which Include Proper Management Oversight Should Be Implemented To Ensure Jail Canteen Revenues and Expenses Are Properly Accounted For And Reported

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

July 13, 2010



MADISON COUNTY OFFICIALS

For The Year Ended June 30, 2009

**Fiscal Court Members:**

Kent Clark	County Judge/Executive
Larry Combs	Magistrate
Harold K. Botner	Magistrate
Roger D. Barger	Magistrate
William H. Tudor	Magistrate

**Other Elected Officials:**

Marc Robbins	County Attorney
Ron Devere	Jailer
William E. Gabbard	County Clerk
Linda S. Cates	Circuit Court Clerk
Nelson O'Donnell	Sheriff
Billy Ackerman	Property Valuation Administrator
James A. Cornelison	Coroner

**Appointed Personnel:**

Glenna Baker	County Treasurer
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**MADISON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**



**MADISON COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 3,184,444	\$ 25,865	\$ 3,210,309
Investments	3,008,904		3,008,904
Total Current Assets	6,193,348	25,865	6,219,213
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	1,075,080		1,075,080
Land and Land Improvements	5,905,718		5,905,718
Buildings	15,266,050		15,266,050
Other Equipment	2,584,904		2,584,904
Vehicles and Equipment	1,594,534		1,594,534
Infrastructure Assets	9,459,952		9,459,952
Total Noncurrent Assets	35,886,238		35,886,238
Total Assets	42,079,586	25,865	42,105,451
<b>LIABILITIES</b>			
Current Liabilities:			
Financing Obligations	251,079		251,079
Bonds Payable	150,000		150,000
Total Current Liabilities	401,079		401,079
Noncurrent Liabilities:			
Financing Obligations	1,329,658		1,329,658
Bonds Payable	9,825,000		9,825,000
Total Noncurrent Liabilities	11,154,658		11,154,658
Total Liabilities	11,555,737		11,555,737
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	24,330,501		24,330,501
Unrestricted	6,193,348	25,865	6,219,213
Total Net Assets	\$ 30,523,849	\$ 25,865	\$ 30,549,714

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

**MADISON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 20, 2009**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,299,497	\$	\$ 776,476	\$
Protection to Persons and Property	13,131,990	859,780	10,727,026	
General Health and Sanitation	654,685	867	16,291	3,000
Social Services	405,615			
Recreation and Culture	313,321	446,407		180,398
Roads	3,285,997	647,176	1,865,935	1,110,221
Road Facilities	12,167			
Interest on Long Term Debt	509,402			
Capital Projects	2,177,473			
Total Governmental Activities	24,790,147	1,954,230	13,385,728	1,293,619
Business-type Activities:				
Jail Canteen	338,919	301,231		
Total Business-type Activities	338,919	301,231		
Total Primary Government	\$ 25,129,066	\$ 2,255,461	\$ 13,385,728	\$ 1,293,619

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

E-911 Taxes

Other Taxes

Excess Fees

Licenses and Permits

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**MADISON COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (3,523,021)	\$	\$ (3,523,021)
(1,545,184)		(1,545,184)
(634,527)		(634,527)
(405,615)		(405,615)
313,484		313,484
337,335		337,335
(12,167)		(12,167)
(509,402)		(509,402)
(2,177,473)		(2,177,473)
<u>(8,156,570)</u>		<u>(8,156,570)</u>
	<u>(37,688)</u>	<u>(37,688)</u>
	<u>(37,688)</u>	<u>(37,688)</u>
<u>(8,156,570)</u>	<u>(37,688)</u>	<u>(8,194,258)</u>
2,706,162		2,706,162
268,330		268,330
435,405		435,405
2,363,573		2,363,573
737,272		737,272
642,799		642,799
669,001		669,001
224,060		224,060
257,930		257,930
<u>609,313</u>		<u>609,313</u>
<u>8,913,845</u>		<u>8,913,845</u>
757,275	(37,688)	719,587
<u>29,766,574</u>	<u>63,553</u>	<u>29,830,127</u>
<u>\$ 30,523,849</u>	<u>\$ 25,865</u>	<u>\$ 30,549,714</u>

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**



**MADISON COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>CSEPP Bond Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>						
Cash and Cash Equivalen	\$ 1,777,208	\$ 25,435	\$ 1,047,743	\$ 148,883	\$ 185,175	\$ 3,184,444
Investments	3,008,904					3,008,904
Total Assets	<u>4,786,112</u>	<u>25,435</u>	<u>1,047,743</u>	<u>148,883</u>	<u>185,175</u>	<u>6,193,348</u>
<b>FUND BALANCES</b>						
Unreserved:						
General Fund	4,786,112					4,786,112
Special Revenue Funds		25,435	1,047,743	148,883	185,175	1,407,236
Total Fund Balances	<u>\$ 4,786,112</u>	<u>\$ 25,435</u>	<u>\$ 1,047,743</u>	<u>\$ 148,883</u>	<u>\$ 185,175</u>	<u>\$ 6,193,348</u>

**Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:**

Total Fund Balances	\$ 6,193,348
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	46,602,932
Accumulated Depreciation	(10,716,694)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,580,737)
Bonds	<u>(9,975,000)</u>
Net Assets Of Governmental Activities	<u>\$ 30,523,849</u>

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

**MADISON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>CSEPP Fund</b>
<b>REVENUES</b>				
Taxes	\$ 6,343,621	\$	\$	\$
Excess Fees	669,001			
Licenses and Permits	212,716			
Intergovernmental	2,311,653	1,564,738	301,197	10,006,130
Charges for Services	483,011	647,176		55,450
Miscellaneous	420,104	73,027		17,525
Interest	234,901	1,063	21,390	
Total Revenues	<u>10,675,007</u>	<u>2,286,004</u>	<u>322,587</u>	<u>10,079,105</u>
<b>EXPENDITURES</b>				
General Government	2,183,007			
Protection to Persons and Property	1,585,282			10,255,614
General Health and Sanitation	642,396			
Social Services	405,615			
Recreation and Culture	718,312			
Roads	20,000	2,575,506	194,203	
Debt Service:				
Principal	501,684			
Interest	509,402			
Capital Projects	2,156,943	16,631		
Administration	1,554,902	366,828		127,633
Total Expenditures	<u>10,277,543</u>	<u>2,958,965</u>	<u>194,203</u>	<u>10,383,247</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>397,464</u>	<u>(672,961)</u>	<u>128,384</u>	<u>(304,142)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds		550,000		
Transfers To Other Funds	(1,245,000)			
Total Other Financing Sources (Uses)	<u>(1,245,000)</u>	<u>550,000</u>		
Net Change in Fund Balances	(847,536)	(122,961)	128,384	(304,142)
Fund Balances - Beginning (Restated)	5,633,648	148,396	919,359	453,025
Fund Balances - Ending	<u>\$ 4,786,112</u>	<u>\$ 25,435</u>	<u>\$ 1,047,743</u>	<u>\$ 148,883</u>

The accompanying notes are an integral part of the financial statements.



**MADISON COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 737,272	\$ 7,080,893
	669,001
	212,716
1,301,389	15,485,107
105,777	1,291,414
39,706	550,362
575	257,929
<u>2,184,719</u>	<u>25,547,422</u>
	2,183,007
2,420,107	14,261,003
	642,396
	405,615
	718,312
	2,789,709
	501,684
	509,402
3,899	2,177,473
486,650	2,536,013
<u>2,910,656</u>	<u>26,724,614</u>
<u>(725,937)</u>	<u>(1,177,192)</u>
695,000	1,245,000
	<u>(1,245,000)</u>
<u>695,000</u>	
(30,937)	(1,177,192)
216,112	7,370,540
<u>\$ 185,175</u>	<u>\$ 6,193,348</u>

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**MADISON COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$ (1,177,192)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	3,152,600
Depreciation Expense	(1,682,998)
Asset Disposal	(24,652)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligation - Principal Payments	344,517
General Obligation Bonds - Principal Payments	<u>145,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 757,275</u></u>
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**MADISON COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2009**





**MADISON COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2009**

	<b>Business-Type Activities - Enterprise Fund</b>	<b>Jail Canteen Fund</b>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 25,865	
Total Current Assets	<u>25,865</u>	
<b>Net Assets</b>		
Unrestricted	25,865	
Total Net Assets	<u><u>\$ 25,865</u></u>	

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**MADISON COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<b>Business-Type Activities - Enterprise Fund</b>
	<hr/>
	<b>Jail Canteen Fund</b>
	<hr/>
<b>Operating Revenues</b>	
Total Operating Revenues	<hr/> \$ 301,231
<b>Operating Expenses</b>	
Total Operating Expenses	<hr/> 338,919
Operating Income (Loss)	<hr/> (37,688)
Change In Net Assets	(37,688)
Total Net Assets - Beginning	<hr/> 63,553
Total Net Assets - Ending	<hr/> <hr/> \$ 25,865

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**





**MADISON COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<b>Jail Canteen Fund</b>
	<hr/>
<b>Cash Flows From Operating Activities</b>	
Revenues	\$ 301,231
Expenditures	<hr/> (338,919)
Net Increase (Decrease) in Cash and Cash Equivalents	(37,688)
Cash and Cash Equivalents - July 1, 2008	<hr/> 63,553
Cash and Cash Equivalents - June 30, 2009	<hr/> <hr/> \$ 25,865

**Reconciliation of Operating Income to  
Net Cash Provided (Used) by Operating Activities**

Operating Income	<hr/> \$ (37,688)
Net Cash Provided (Used) by Operating Activities	<hr/> <hr/> \$ (37,688)

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Madison County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14 and GASB 39, there are no component units, which merit consideration as part of the reporting entity.

**C. Madison County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Madison County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Madison County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Chemical Stockpile Emergency Preparedness Program (CSEPP) Fund – This fund is to be used to improve Madison County's capacity to plan for and respond to accidents associated with storage and ultimate disposal of chemical warfare materials located at the Bluegrass Army Depot. The U. S. Congress appropriates funding for reimbursement of CSEPP expenditures. CSEPP funds may not be commingled with other funds.

The primary government also has the following non-major funds: Jail Fund; Community Development Block Grant Fund; and E-911 Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, CSEPP Fund, Local Government Economic Assistance Fund, Community Development Block Grant Fund and E- 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretation issues after November 30, 1989, unless the Government Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings	\$ 10,000	10-75
Building Improvements	\$ 10,000	10-75
Machinery and Equipment	\$ 10,000	3-25
Vehicles	\$ 10,000	3-5
Infrastructure	\$ 10,000	10-50

**G. Long-Term Obligations**

In the government-wide financial statements and proprietary fund in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and capital leases are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. A formal budget is not adopted for the Jail Canteen Fund.

The State Local Finance Officer does not require the Jail Canteen fund to be budgeted because the fiscal court does not approve the expenditures made from this fund.

The County Judge/executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Deposits and Investments**

**A. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.



**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**B. Investments**

Type of Investments	Maturity Date	Value at Cost	Rating	Concentration Percentage
Federal National Mortgage Association Pass Thru CTF Series 2004-91	12/25/2034	\$ 329,255		10.94%
Federal National Mortgage Association Investment Note	2/22/2034	\$ 500,000	AAA/Aaa	16.62%
Federal National Mortgage Association Medium Term Note	2/5/2024	\$ 497,886	AAA/Aaa/AAA	16.55%
Federal National Mortgage Association Medium Term Note	3/4/2024	\$ 498,972	AAA/Aaa/AAA	16.58%
First Horizon Mortgage Pass Thru CTFS 2002-4	9/25/2034	\$ 155,040		5.15%
Consumer Energy Co Insured Quarterly Notes	4/15/2035	\$ 250,000	BBB/Baa1/BBB	8.31%
Federal National Mortgage Association Medium Term Note	3/27/2023	\$ 378,762	AAA	12.59%
Federal National Mortgage Association Medium Term Note	4/21/2028	\$ 100,864	Aaa/AAA	3.35%
CWALT, Inc Pass Thru Certificate 2005-52CB 1-A-3	11/25/2035	\$ 298,125		9.91%
		<u>\$ 3,008,904</u>		<u>100.00%</u>

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**B. Investments (Continued)**

**Interest Rate Risk.** The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

**Credit Risk.** KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency. Banker's acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing in no more than 20% in any one of four investment types specifically mentioned in KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, U.S. government obligations or obligations guaranteed by the U.S. government are not subject to investment credit risk or concentration of credit risk. See the above chart for credit ratings for each individual investment type.

**Concentration of Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. See the above chart for investments that exceed five percent or more of the total investments for the County.

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2009, the County's investments were exposed to custodial credit risk.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 5,767,795	\$ 137,923	\$	\$ 5,905,718
Construction In Progress	741,871	357,240	(24,031)	1,075,080
Total Capital Assets Not Being Depreciated	6,509,666	495,163	(24,031)	6,980,798
Capital Assets, Being Depreciated:				
Buildings	18,000,779	99,691		18,100,470
Other Equipment	2,475,441	1,590,182		4,065,623
Vehicles and Equipment	3,027,060	298,099	(124,234)	3,200,925
Infrastructure	13,561,620	693,496		14,255,116
Total Capital Assets Being Depreciated	37,064,900	2,681,468	(124,234)	39,622,134
Less Accumulated Depreciation For:				
Buildings	(2,527,822)	(306,598)		(2,834,420)
Other Equipment	(1,180,710)	(300,009)		(1,480,719)
Vehicles and Equipment	(1,460,720)	(245,253)	99,582	(1,606,391)
Infrastructure	(3,964,026)	(831,138)		(4,795,164)
Total Accumulated Depreciation	(9,133,278)	(1,682,998)	99,582	(10,716,694)
Total Capital Assets, Being Depreciated, Net	27,931,622	998,470	(24,652)	28,905,440
Governmental Activities Capital Assets, Net	\$ 34,441,288	\$ 1,493,633	\$ (48,683)	\$ 35,886,238

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 212,642
Protection to Persons and Property	451,013
General Health and Sanitation	12,289
Recreation and Culture	50,013
Roads, Including Depreciation of General Infrastructure Assets	957,041
Total Depreciation Expense - Governmental Activities	<u>\$ 1,682,998</u>

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt**

**A. General Obligation Improvement Bonds, Series 2001**

Bonds outstanding of the General Obligation Funding and Improvement Bonds issued on August 1, 2001, was \$3,285,000 with interest rates of 4.15% through 4.875% payable semiannually. The total issue of the bonds was \$3,320,000 with principal payments due annually on April 1. The bonds fully amortize by April 1, 2021. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 5,000	\$ 159,828
2011	5,000	159,620
2012	5,000	159,412
2013	5,000	159,168
2014	5,000	158,925
2015-2019	25,000	790,967
2020-2021	3,230,000	314,681
Totals	<u>\$ 3,280,000</u>	<u>\$ 1,902,601</u>

**B. General Obligation Bonds, Series 2004**

Bonds outstanding of the General Obligation Public Project Bonds issued on April 1, 2004 was \$1,535,000 with interest rates of 1.50% through 4.60% payable semiannually. The total issue of the bonds was \$1,635,000 with principal payments due annually on March 1. The bonds fully amortize by March 1, 2034. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 35,000	\$ 64,648
2011	35,000	63,702
2012	40,000	62,652
2013	40,000	61,352
2014	40,000	59,972
2015-2019	225,000	275,770
2020-2024	280,000	223,384
2025-2029	355,000	153,974
2030-2034	450,000	64,400
Total	<u>\$ 1,500,000</u>	<u>\$ 1,029,854</u>

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**C. General Obligation Improvement Bonds, Series 2004B**

On October 20, 2004, the Madison County Fiscal Court issued \$5,500,000 of General Obligation Improvement Bonds with interest rates of 2.00% through 4.65%. Principal payments are due annually on April 1 and interest payable are due semiannually on April 1 and October 1. The proceeds of the bonds were to be used for the construction of a new courthouse annex. The bonds fully amortize by October 1, 2036. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 110,000	\$ 220,661
2011	110,000	217,528
2012	115,000	214,066
2013	120,000	210,275
2014	125,000	206,107
2015-2019	700,000	956,408
2020-2024	850,000	730,090
2025-2029	1,075,000	562,425
2030-2034	1,355,000	372,013
2035-2036	635,000	66,265
Total	<u>\$ 5,195,000</u>	<u>\$ 3,755,838</u>

**D. Financing Obligations-HVAC System**

On February 12, 1998, the Madison County Fiscal Court entered into a 20-year lease agreement with the KADD Financing Trust for the replacement of the HVAC system in the courthouse and related improvements and replacements. Principal payments are due annually by November 20. The principal outstanding as of June 30, 2008 was \$460,000. The schedule below sets forth Madison County's future principal and interest payments:

<u>Fiscal Year Ended June 30</u>	<u>Principal Payments</u>	<u>Interest and Bank Charges</u>	<u>Total Payments</u>	<u>Less: AOC Portion*</u>	<u>Net Due From County</u>
2010	\$ 40,000	\$ 22,615	\$ 62,615	\$ (23,696)	\$ 38,919
2011	40,000	20,495	60,495	(23,696)	36,799
2012	40,000	18,375	58,375	(23,696)	34,679
2013	45,000	16,123	61,123	(23,696)	37,427
2014	45,000	13,181	58,181	(23,696)	34,485
2015-2018	215,000	27,336	242,336	(94,784)	147,552
Total	<u>\$ 425,000</u>	<u>\$ 118,125</u>	<u>\$ 543,125</u>	<u>\$ (213,264)</u>	<u>\$ 329,861</u>

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. Financing Obligations-HVAC System (Continued)**

In accordance with a sublease agreement between Administrative Office of the Courts (AOC) and the Madison County Fiscal Court dated March 1, 1998, AOC committed itself to participate in providing part of the cost of replacing the HVAC system in the courthouse and related improvements through use allowance payments.

On September 30, 2009 this lease was refinanced. The refinancing increased the principal balance of the lease but lowered the interest and bank charges significantly.

**E. Financing Obligations - Other**

1) Fire Station – KACo Financing Trust

On August 6, 1997, the Madison County Fiscal Court entered into a 15-year leasing agreement with KACo Leasing Trust for the construction of a fire station. Principal and interest payments are due monthly. The balance of principal due on June 30, 2009, was \$135,738.

2) Family Court Facilities Project – KADD Financing Trust

On July 20, 2000, the Madison County Fiscal Court entered into a 17-year leasing agreement with KADD Financing Trust for the Construction of the family court facilities project. Principal payments are due annually on May 20 and interest payments are due semi-annually on May 20 and November 20. The balance of principal due on June 30, 2009, was \$705,000.

3) Road/Fire Equipment – KADD Financing Trust

On July 31, 2002, the Madison County Fiscal Court entered into a 7-year leasing agreement with KADD Financing Trust. The proceeds of the lease were used to refinance a previous lease dated April 21, 1999 and to purchase additional road and fire equipment. Principal payments are due annually on April 20 and interest payments are due semi-annually on April 20 and October 20. The balance of principal due on June 30, 2009, was \$0.

4) Land - KACo Financing Trust

On December 18, 2006, the Madison County Fiscal Court entered into a 5-year leasing agreement with KACo Leasing Trust for the purchase of a parcel of land to be used by the Madison County Park System. Principal payments are due annually on December 20, and interest payments are due monthly. The balance of principal due on June 30, 2009, was \$314,999.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**E. Financing Obligations – Other (Continued)**

Fiscal Year Ended June 30	Fire Station (KACO)	Family Court Facilities (KADD)	Road/Fire Equipment (KADD)	Land Purchase KACO	Total
2010	\$ 47,074	\$ 112,783	\$ -	\$ 111,716	\$ 271,573
2011	46,610	114,123		112,310	273,043
2012	46,133	114,770		112,522	273,425
2013	7,641	115,127			122,768
2014		115,195			115,195
2015-2017		347,787			347,787
Total Minimum Lease Payments	147,458	919,785	-	336,548	1,403,791
Less: Interest and Fees	11,720	214,785		21,549	248,054
Present Value of Minimum Lease Payments	\$ 135,738	\$ 705,000	\$ -	\$ 314,999	\$ 1,155,737

**F. Changes In Long-term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Financing Obligations	\$ 1,925,254	\$	\$ 344,517	\$ 1,580,737	\$ 251,079
General Obligation Bonds	10,120,000		145,000	9,975,000	150,000
Total Government Activities-					
Long-Term Liabilities	\$ 12,045,254	\$	\$ 489,517	\$ 11,555,737	\$ 401,079

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 5. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 13.50 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent.

The county's contribution for FY 2007 was \$714,365, FY 2008 was \$946,994 and FY 2009 was \$891,028.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.



**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**  
**(Continued)**

**Note 6. Insurance**

For the fiscal year ended June 30, 2009, Madison County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 7. Prior Period Adjustments**

The beginning cash balance included in net assets was increased by \$5,149 due to the voiding of prior year outstanding checks in the amount of \$5,149. The beginning value of investments was increased by \$4,358 in order to show valuation at cost instead of market. The effect of this change on the beginning net assets of the governmental activities is an increase of \$9,507.

The General Fund was increased by \$8,999 due to voided checks and investments. The CSEPP Fund was decreased by \$335 due to voided checks. The Non-Major Funds were increased by \$173 due to voided checks.

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**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**



**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2009**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 6,655,100	\$ 6,655,100	\$ 6,343,621	\$ (311,479)
Excess Fees	675,000	675,000	669,001	(5,999)
Licenses and Permits	246,000	246,000	212,716	(33,284)
Intergovernmental Revenue	6,108,898	6,360,898	2,311,653	(4,049,245)
Charges for Services	475,000	475,000	483,011	8,011
Miscellaneous	335,000	335,000	420,104	85,104
Interest	300,000	300,000	234,901	(65,099)
Total Revenues	<u>14,794,998</u>	<u>15,046,998</u>	<u>10,675,007</u>	<u>(4,371,991)</u>
<b>EXPENDITURES</b>				
General Government	1,898,968	2,347,438	2,183,007	164,431
Protection to Persons and Property	1,654,369	1,760,797	1,585,282	175,515
General Health and Sanitation	662,727	715,921	642,396	73,525
Social Services	696,017	623,729	405,615	218,114
Recreation and Culture	865,900	913,102	718,312	194,790
Roads	20,000	20,000	20,000	
Debt Service	1,157,537	1,157,537	1,011,086	146,451
Capital Projects	5,364,714	5,729,978	2,156,943	3,573,035
Administration	5,904,766	5,208,496	1,554,902	3,653,594
Total Expenditures	<u>18,224,998</u>	<u>18,476,998</u>	<u>10,277,543</u>	<u>8,199,455</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(3,430,000)</u>	<u>(3,430,000)</u>	<u>397,464</u>	<u>3,827,464</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	<u>(1,070,000)</u>	<u>(1,070,000)</u>	<u>(1,245,000)</u>	<u>(175,000)</u>
Total Other Financing Sources (Uses)	<u>(1,070,000)</u>	<u>(1,070,000)</u>	<u>(1,245,000)</u>	<u>(175,000)</u>
Net Changes in Fund Balance	<u>(4,500,000)</u>	<u>(4,500,000)</u>	<u>(847,536)</u>	<u>3,652,464</u>
Fund Balance - Beginning	<u>4,500,000</u>	<u>4,500,000</u>	<u>5,633,648</u>	<u>1,133,648</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,786,112</u>	<u>\$ 4,786,112</u>

**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 2,140,238	\$ 2,140,238	\$ 1,564,738	\$ (575,500)
Charges for Services	645,000	645,000	647,176	2,176
Miscellaneous	40,000	40,000	73,027	33,027
Interest	2,500	2,500	1,063	(1,437)
Total Revenues	<u>2,827,738</u>	<u>2,827,738</u>	<u>2,286,004</u>	<u>(541,734)</u>
<b>EXPENDITURES</b>				
Roads	2,531,410	2,800,242	2,575,506	224,736
Capital Projects	200,000	200,000	16,631	183,369
Administration	646,328	377,496	366,828	10,668
Total Expenditures	<u>3,377,738</u>	<u>3,377,738</u>	<u>2,958,965</u>	<u>418,773</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(550,000)</u>	<u>(550,000)</u>	<u>(672,961)</u>	<u>(122,961)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	<u>400,000</u>	<u>400,000</u>	<u>550,000</u>	<u>150,000</u>
Total Other Financing Sources (Uses)	<u>400,000</u>	<u>400,000</u>	<u>550,000</u>	<u>150,000</u>
Net Changes in Fund Balance	(150,000)	(150,000)	(122,961)	27,039
Fund Balance - Beginning	<u>150,000</u>	<u>150,000</u>	<u>148,396</u>	<u>(1,604)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 25,435</u>	<u>\$ 25,435</u>

**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 285,000	\$ 285,000	\$ 301,197	\$ 16,197
Interest	30,000	30,000	21,390	(8,610)
Total Revenues	315,000	315,000	322,587	7,587
<b>EXPENDITURES</b>				
Roads	1,230,000	1,230,000	194,203	1,035,797
Total Expenditures	1,230,000	1,230,000	194,203	1,035,797
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(915,000)	(915,000)	128,384	1,043,384
Net Changes in Fund Balance	(915,000)	(915,000)	128,384	1,043,384
Fund Balance - Beginning	915,000	915,000	919,359	4,359
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,047,743	\$ 1,047,743

**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>CSEPP FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 33,909,449	\$ 33,909,449	\$ 10,006,130	\$ (23,903,319)
Charges for Services	60,000	60,000	55,450	(4,550)
Miscellaneous	37,220	37,220	17,525	(19,695)
Total Revenues	<u>34,006,669</u>	<u>34,006,669</u>	<u>10,079,105</u>	<u>(23,927,564)</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	33,909,449	33,959,449	10,255,614	23,703,835
Administration	347,220	297,220	127,633	169,587
Total Expenditures	<u>34,256,669</u>	<u>34,256,669</u>	<u>10,383,247</u>	<u>23,873,422</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(250,000)</u>	<u>(250,000)</u>	<u>(304,142)</u>	<u>(54,142)</u>
Net Changes in Fund Balances	(250,000)	(250,000)	(304,142)	(54,142)
Fund Balances - Beginning	<u>250,000</u>	<u>250,000</u>	<u>453,025</u>	<u>203,025</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 148,883</u>	<u>\$ 148,883</u>



**MADISON COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**MADISON COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2009**



**MADISON COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

June 30, 2009

	<b>Jail Fund</b>	<b>Community Development Block Grant Fund</b>	<b>E-911 Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 7,784	\$	\$ 177,391	\$ 185,175
<b>FUND BALANCES</b>				
Unreserved:				
Special Revenue Funds	7,784	0	177,391	185,175
Total Fund Balances	\$ 7,784	\$ 0	\$ 177,391	\$ 185,175

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2009**





**MADISON COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**OTHER SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Jail Fund</b>	<b>Community Development Block Grant Fund</b>	<b>E-911 Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>				
Taxes	\$	\$	\$ 737,272	\$ 737,272
Intergovernmental	1,075,562	3,000	222,827	1,301,389
Charges For Services	91,650		14,127	105,777
Miscellaneous	39,706			39,706
Interest	131		444	575
Total Revenues	<u>1,207,049</u>	<u>3,000</u>	<u>974,670</u>	<u>2,184,719</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	1,681,073		739,034	2,420,107
Capital Projects		3,001	898	3,899
Administration	310,848		175,802	486,650
Total Expenditures	<u>1,991,921</u>	<u>3,001</u>	<u>915,734</u>	<u>2,910,656</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(784,872)</u>	<u>(1)</u>	<u>58,936</u>	<u>(725,937)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	695,000			695,000
Total Other Financing Sources (Uses)	<u>695,000</u>			<u>695,000</u>
Net Change in Fund Balances	(89,872)	(1)	58,936	(30,937)
Fund Balances - Beginning (Restated)	97,656	1	118,455	216,112
Fund Balances - Ending	<u>\$ 7,784</u>	<u>\$ 0</u>	<u>\$ 177,391</u>	<u>\$ 185,175</u>

The accompanying notes are an integral part of the financial statements.

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**MADISON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**MADISON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2009**

Federal Grantor				
Program Title	Pass-Through	Federal		
<u>Grant Name</u>	<u>Grantor's Number</u>	<u>CFDA No.</u>	<u>Expenditures</u>	
U.S. Department of Homeland Security				
<i>Passed Through KY Office of Homeland Security</i>				
Chemical Stockpile Emergency Preparedness Program	M-05374698	97.040	\$ 10,383,247	*
Emergency Management Performance Grant	M-05029993	97.042	28,769	
Disaster Grants - Public Assistance - Ice Storm	1818-DR-KY	97.036	110,550	
Disaster Grants - Public Assistance - Tornado	1841-DR-KY	97.036	40,313	
Total CFDA #97.036			<u>150,863</u>	
Total U.S. Department of Homeland Security			10,562,879	
U.S. Department of Housing and Urban Development				
<i>Passed Through Governor's Office for Local Development</i>				
Community Development Block Grant -				
Northern Madison County Wastewater Treatment and Collection Project	05-013	14.228	3,001	
U.S. Department of Transportation				
<i>Passed Through KY Transportation Cabinet</i>				
Highway Planning and Construction -				
Battle of Richmond Preservation and Interpretation Project	C-05092750	20.205	<u>325,369</u>	
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 10,891,249</u></u>	

\* *Tested as Major Program*

The accompanying notes are an integral part of the financial statements.

**MADISON COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2009**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Madison County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kent Clark, Madison County Judge/Executive  
Members of the Madison County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated July 13, 2010 wherein we issued a disclaimer of opinion on the business-type activities and the Jail Canteen Fund due to the high level of fraud risk, internal control weaknesses and the lack of adequate documentation maintained by the Jailer. Madison County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Madison County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Madison County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Madison County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2009-1 to be a significant deficiency in internal control over financial reporting.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Madison County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance which is described in the accompanying schedule of findings and questioned costs as items 2009-1 that is required to be reported under Government Auditing Standards.

The Madison County Jailer's response to the finding identified in our audit is included in the schedule of findings and questioned costs. We did not audit the Jailer's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

July 13, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kent Clark, Madison County Judge/Executive  
Members of the Madison County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Madison County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Madison County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Madison County's management. Our responsibility is to express an opinion on Madison County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Madison County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Madison County's compliance with those requirements.

In our opinion, Madison County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Madison County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Madison County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Madison County's internal control over compliance.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program, will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

July 13, 2010

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2009**





**MADISON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2009**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the governmental activities, each major fund and the aggregate remaining fund information of Madison County. The auditor's report does not express an opinion on the financial statements of the business-type activities and the jail canteen fund.
2. One significant deficiency, also considered a material weakness, relating to the internal control of the audit of the financial statements is reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Madison County was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Madison County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Madison County reported in Part C of this schedule.
7. The program tested as a major program was: Chemical Stockpile Emergency Preparedness Program (CSEPP) – CFDA #97.040.
8. The threshold for distinguishing Type A and B programs was \$326,737.
9. Madison County was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

2009-1 Internal Controls And Policies And Procedures Which Include Proper Management Oversight Should Be Implemented To Ensure Jail Canteen Revenues and Expenses Are Properly Accounted For And Reported

The Jailer is responsible for collecting certain monies, such as bail bond fees, work release fees and booking fees in the course of his elected position. Per KRS 441.135, the Jailer may also maintain a canteen for the benefit of prisoners lodged in the jail. All profits from the canteen shall be used for the benefit and to enhance the well-being of the prisoners. Unless otherwise specified by statute the handling of these funds should be in accordance with the requirements for handling all county funds as prescribed by the State Local Finance Officer pursuant to KRS 68.210.

KRS 68.210 includes, but is not limited to, the following guidelines for the handling of public funds:

- The cash basis of accounting must be utilized. This requires revenues to be recognized when received and expenditures to be recognized when paid.
- Pre-numbered three part receipt forms should be issued for all receipts. Original to be given to payor, copy to be attached in sequential order to daily cash check-out or daily deposit record, and copy to remain in file. Voided receipts should be so marked, copies one and two kept in numerical order with check-out records, and copy three remaining in file (KRS 64.840).
- Daily deposits intact into a federally insured banking institution are required. At the end of each business day the Jailer or assigned personnel should separate individual receipts into categories listed on the check-out sheet. The total of each category should be entered on the appropriate space provided. The amount deposited line should equal the amount of money on hand at the end of each day less start-up cash. A maximum of fifty dollars shall be used for start-up for the next business day. All daily detail (deposit form, cash receipts, etc.) should be attached to the form. If the total daily deposit is correct, post to the Jail Commissary Fund Receipts Journal. Receipts should be posted to this journal on a daily basis. The total amount category should agree with the amount deposited line on the Daily Check-Out Sheet. (KRS 68.210)

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2009**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

**2009-1 Internal Controls And Policies And Procedures Which Include Proper Management Oversight Should Be Implemented To Ensure Jail Canteen Revenues and Expenses Are Properly Accounted For And Reported (Continued)**

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- Personal funds kept separate from public funds. (KRS 64.850)
- Monthly bank reconciliation. (KRS 68.210)
- Checks should be issued for all expenditures made. Each check written must be posted to the proper category in the disbursements journal.
- KRS 441.135 further requires the Jailer to report annually to the County Treasurer report annually on the canteen account.

Based on audit procedures performed we found that:

- Daily check-out sheets were not prepared for approximately the first 4 months of the audit period. Daily check-out sheets that were available for review were not always prepared correctly. All daily receipts were not batched and agreed to money on hand at the end of each day and daily check out sheet total.
- A receipts ledger was not maintained and daily deposits were not made in tact (i.e., in the same form as they were collected). Deposits to the Jail Canteen bank account were made approximately on a weekly basis throughout the audit period. However, these deposits did not correlate to any identifiable batched daily receipts or daily check out sheet since most deposits consisted of monies received in the form of check or money orders and deposits including actual cash monies received were only made 12 times during the audit period as documented by review of deposit tickets per bank statements.
- The Jailer and his employees routinely cashed payroll and personal checks from canteen receipts. It was also documented that checks written to inmates upon release from the MCDC to close their Canteen Account were cashed from canteen receipts.
- Refunds were also made to inmates upon release from the MCDC to close their Canteen account in the form of cash, with no check being issued.
- Inmate purchases from the Jail Canteen or monies received by inmates for work release were not signed off on by the inmate on the inmate ledger sheets.
- An accurate balance of inmate accounts receivables and accounts payables for the Jail Canteen account was also not maintained or readily available. A ledger of inmates currently housed in the MCDC appears to be maintained. However, upon release from the MCDC, the applicable inmate ledger sheet is removed from the inmate ledger book and placed in the inmates file.
- A disbursements ledger was not maintained.
- Monthly bank reconciliations were prepared, however, since a receipts ledger or disbursements ledger was not maintained a review for agreement to ledgers was not performed or documented.
- On May 25, 2010, auditors conducted a surprise cash count and found approximately \$6,565 of cash that was unidentifiable based on available records.

Additionally, a lack of internal controls, inadequate policies and procedures and management oversight over receipts and disbursements for the Jail Canteen and fees collected at the MCDC exists. This lack of documentation, internal controls, policies and procedures and management oversight could result in misappropriation of assets and or fraudulent financial reporting including understatement of receipts, understatement of disbursements and misuse of cash and other assets.

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2009**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

**2009-1 Internal Controls And Policies And Procedures Which Include Proper Management Oversight Should Be Implemented To Ensure Jail Canteen Revenues and Expenses Are Properly Accounted For And Reported (Continued)**

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To adequately protect against misappropriation of assets and/or fraudulent financial reporting and protect employees in the normal course of performing their daily responsibilities, we recommend the Jailer implement policies and procedures, internal controls and provide documented management oversight to ensure that:

1. Daily receipts for all monies received are batched and posted to the daily check out sheet.
2. A receipts ledger is maintained and agreed to the daily check out sheet and to the bank deposit which should be made in tact daily.
3. The practice of cashing any type of check from the Jail Canteen cash monies received is prohibited.
4. Inmate Jail Canteen purchases and cash received by inmates for Work Release or other deductions reflected as a deduction from their account balance is documented by the inmate's signature on the inmate's ledger sheet.
5. The inmate ledger book includes all inmate ledger sheets for all former and current inmates that reflect an amount due to or due from an inmate to allow for an accurate balance of amounts due to and from the Jail Canteen Fund.
6. All monies received by the Jailer as a result of his official duties, including fees collected and Jail Canteen receipts, are posted to receipts ledger.
7. A disbursements ledger is maintained. All expenditures, including transfers to other bank accounts, payments to County Treasurer for fees collected and bond monies collected for the Circuit Clerk, are paid by check and properly identified and posted to the disbursements ledger.
8. Monthly bank reconciliation amounts are compared to the receipts and disbursements ledger balances. This comparison should be documented. The amounts from the receipts and disbursements ledgers are then used to prepare the annual financial report submitted to the County Treasurer.
9. When closing out daily cash check out sheet a maximum of fifty dollars should be maintained and used for start-up for the next business day. This will eliminate the existence of unidentifiable cash monies maintained by the Jailer at the Jail.

*Jailer's Response:*

1. *Implemented 7-12-10.*
2. *To be implemented 7-19-10.*
3. *Implemented 7-12-10.*
4. *Work release pay outs started signing ledger 7-1-10. Canteen purchases signature starts 7-19-10.*
5. *All inmate debts are transferred over to jail management computer upon release. All money or refunds the jail owes inmates, has already had a receipt written, posted, and money in the bank. Do not see a need for a separate ledger book.*

*Auditor's Reply: The ledger given to the auditor only contained ledger sheets for inmates currently in the jail. When inmates are released, their sheets are pulled from the ledger and filed. Therefore, the auditor could not determine a total amount due to or due from the Jail Canteen Fund.*

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2009**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

2009-1 Internal Controls And Policies And Procedures Which Include Proper Management Oversight Should Be Implemented To Ensure Jail Canteen Revenues and Expenses Are Properly Accounted For And Reported (Continued)

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*Jailer's Response: (Continued)*

6. *To be implemented 7-19-10.*
7. *Disbursement ledger was already maintained, bond money to clerk will be added as a disbursement in form of a check starting 7-19-10.*

*Auditor's Reply: A disbursement ledger did not exist for all disbursements made from the Jail Canteen account, which should include the check number, date paid, payee, and expenditure category. The auditor left an example disbursement ledger for the Jailer as shown in the Department of Local Government's Instructional Guide For County Budget Preparation And State Local Finance Officer Policy Manual.*

8. *No problem.*
9. *Maximum of \$100.00 dollars has been used as start up cash in the past. This is a comfortable amount for the efficient operation of business. Will change if necessary. Documentation and accounting will be expanded to simplify the auditing process.*

*Auditor's Reply: There are minimum accounting and reporting requirements prescribed by the State Local Finance Officer pursuant to KRS 68.210 that must be followed by county jailers. One of those requirements states, "a maximum of fifty dollars shall be used for start-up for the next business day." This has nothing to do with simplifying the audit process.*

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

None

**D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

None

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

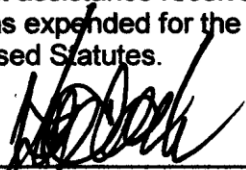
**MADISON COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**MADISON COUNTY FISCAL COURT**  
**For The Fiscal Year Ended June 30, 2009**

The Madison County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Kent Clark  
County Judge/Executive

  
\_\_\_\_\_  
Glenna Baker  
County Treasurer

